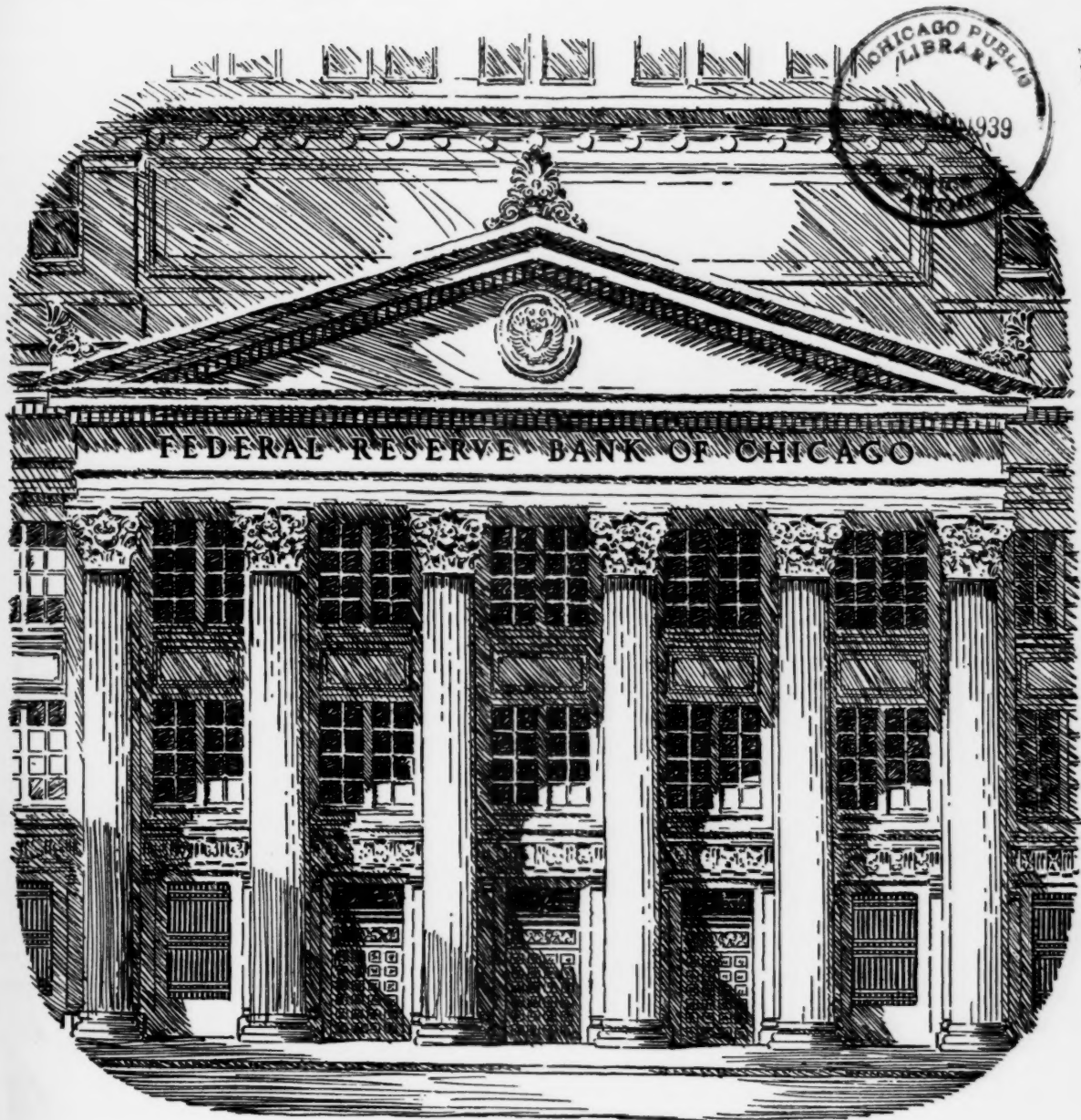


BUSINESS CONDITIONS



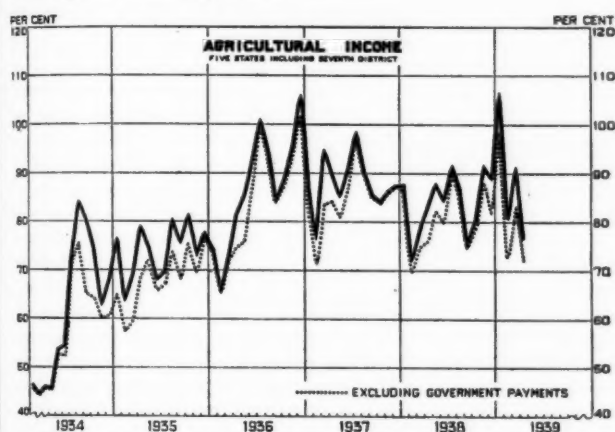
Prepared by the
Research and Statistics Department
of the
Federal Reserve Bank of Chicago

Monthly Review of Business Conditions in the Seventh Federal Reserve District

DISTRICT SUMMARY

MAY trends in Seventh district industrial production were mixed, but in the aggregate there seemed to be little change from April and margins of gain over 1938 remained large. There were reports of improved consumer demand in many fields and indications are that June industrial output should be at least as high as in May. Retail and wholesale distribution rose over April and department store sales trends continued favorable through mid-June.

Agriculture—Despite generally lower farm prices, agricultural income in the area was favorable this year until April. Major district crops were coming along well in mid-June, after good rains improved dry conditions, but harvests are expected to be lower than in 1938 because of reduced acreage. Grain prices strengthened generally in May; in June quotations eased as crop prospects improved. There was a seasonal expansion during May in production of butter and cheese, but that of both commodities totaled 8 per cent lower than last year. May meat-packing production in the United States was exceptionally heavy, being the highest for the month since 1934. Meat-products inventories continued well below average and, though still relatively heavy, considerable improvement has been noted in cold-storage holdings of creamery butter.



Index of agricultural income in dollars, unadjusted for seasonal variation, 1929-1933 average = 100. By months, January 1934 through April 1939.

Industry—District steel operations were stepped up in late May after a flurry of buying in sheets and strip in mid-month, but the local operating rate had declined somewhat by mid-June. With strikes and the holiday holding up production somewhat, the manufacture of automobiles declined

moderately in May; subsequently, schedules were increased partly because May demand for cars over the country proved better than had been expected. Sales of new cars in the district declined less than seasonally in May and used-car sales were up about 10 per cent. There was a sharp increase in new orders at steel castings foundries and furniture firms, but bookings of malleable castings fell off. Although incoming business at paper mills continued to decline, production increased moderately. Petroleum refining operations held up well in May and gasoline prices were somewhat firmer in early June.

Trends in district building construction have been generally good for most of 1939, but in May contracts awarded recorded no more than a fractional rise over April and were only 4 per cent heavier than in 1938. Residential construction continued to make favorable showings.

Chiefly because of lowered production schedules in the automobile industry, district industrial employment in mid-May was off 2 per cent from a month previous and payrolls were 3 per cent lower. The aggregate for industries other than vehicles showed little change. Comparisons with 1938 levels continued good.

Trade—There was an increase of 3 per cent during May over April in district department store sales; comparisons with 1938 showed a gain of 15 per cent in the aggregate and of 10 per cent on a daily average basis. Sales by weekly reporting stores in the first three weeks of June totaled 11 per cent better than a year earlier. Department store inventories trended downward and at the close of the period were 6 per cent lighter than on May 31, 1938, by which time stocks already had been considerably reduced from earlier peaks. Sales of shoes at retail no more than equaled the April volume, but furniture sales showed a better than usual expansion for May. Trends in wholesale distribution for most lines were distinctly favorable, total May sales of reporting groups expanding 12 per cent over April.

Finance—In the four weeks ended June 14 a large gain in funds from other districts through commercial and financial transactions was offset by an excess of Treasury receipts over disbursements, with the result that Seventh district member bank reserve balances showed only a minor rise over the period. Demand deposits at reporting member banks increased 100 million dollars in these same weeks; investment portfolios expanded 64 millions, as banks enlarged their holdings of short-term Treasury securities. The volume of new financing through sales of securities was on the whole more satisfactory during May than earlier in the year.

The Agricultural Situation

Income—Seventh district farmers have received considerably more income thus far in 1939 than they did in 1938, the increase for the first four months of the year being about 11 per cent. This has been in the face of prevailing lower prices for all major district farm products except cattle, calves, and soybeans. As April income was at the lowest level for the month since 1934, the favorable showing came in the first three months of the year; this can largely be attributed to realizations on Government corn loans, particularly in Iowa and Illinois.

Crop Conditions—General and timely rains in late May and the first half of June over most of the Seventh district dispelled earlier fears of drought in the area. The corn crop was especially benefited; dry weather had permitted early planting, and the ensuing rains obviated the necessity for much replanting. In the third week of June the crop was unusually well advanced. Fields by then averaged knee high, and some were even too tall for further cultivation.

Fair to good progress has been made in winter wheat, but because of reduced acreage, the district crop is expected to be about 18 per cent smaller than last year. Spring wheat prospects are for a crop only slightly above 1938, and the district oats crop has been unofficially forecast at 16 per

cent short of last year's harvest. An average of private estimates on the basis of June 1 condition, places the prospective United States oats crop at 955 million bushels, a drop of about 9 per cent from last year's crop, and similarly forecasts a cut of 24 per cent in the United States spring wheat harvest.

The condition of pastures improved with the June rains, but as of June 1 pasturage was only about average and worse than in 1938. Soybean planting was about completed on June 20; soybeans are expected to be a principal hay crop in some areas this year since early dryness affected many hay crops adversely. Clover and alfalfa stands were in good condition in mid-June, and considerable alfalfa, clover, and other hay already had been cut.

Truck crops showed improvement to June 20, and despite some shortening of strawberry yields by heat and drought, prospects for fruits in the district were unusually favorable.

CROP PRODUCTION

Estimated by the United States Bureau of Agricultural Economics on the Basis of June 1 Condition

(In thousands of bushels, unless otherwise specified)

	Five States Including Seventh District			United States		
	Forecast 1939	Final 1938	Average 1928-37	Forecast 1939	Final 1938	Average 1928-37
Winter Wheat.....	82,568	101,685	84,571	523,431	686,637	560,160
Rye.....	9,177	9,942	7,866	34,628	35,039	36,330
Peaches.....	5,161a	3,055a	3,646a	61,965	51,945	54,151
Pears.....	2,634a	2,294a	1,974a	30,024	32,473	25,444
Strawberries*	2,298	1,270	1,203	14,129	11,469	11,326
Cherries**	45b	24b	38b	180c	141c	125c

*—In thousands of crates containing 24 quarts. **—In thousands of tons.

a—Michigan, Illinois, Indiana, and Iowa. b—Michigan and Wisconsin.

c—Twelve principal producing States.

Grains—Marketings of corn, wheat, and oats during May showed substantial increases over April, but those of corn continued far under a year ago and receipts of wheat and oats were somewhat lower than in 1938. A large portion of corn receipts consisted of movement of Government holdings.

Prices of these grains showed marked strength over most of May. Cash wheat prices were up about 4 cents for the month, influenced by growing concern over prospects for a shorter crop in the United States, as well as expectations of only an average harvest in Europe. Under the pressure of offerings from the Argentine, foreign wheat markets failed to respond to United States strength in May. With the appearance of needed moisture in the domestic and Canadian wheat belt, considerable weakness was shown in the first three weeks of June. Export demand for wheat over the period was negligible, although export shipments of grain were in fair volume.

Corn prices likewise responded to unfavorable crop prospects during May, and cash quotations were up about 3 cents for the month. An incipient crop scare was nipped by fairly general relief from the drought in late May and early June, and prices eased slightly. Firmness during the first half of June in foreign markets failed to stimulate domestic export sales. Though still better than average, the corn-hog ratio again became less favorable to feeders in May, as corn rose and hogs declined in price. Computed at average United States prices, 100 pounds of live hog were equivalent to 13.2 bushels of corn on May 15, as compared with 13.9 bushels in May 1938.

Visible supplies of wheat and corn showed little change from mid-May to mid-June, but were substantially in excess of 1938 levels. Those of oats fell 30 per cent over the period and were well below a year ago.

MOVEMENT OF GRAIN AT INTERIOR PRIMARY MARKETS IN THE UNITED STATES

(In thousands of bushels)

	May 1939	April 1939	May 1938	May 1929-38 Avg.
Wheat:				
Receipts.....	25,928	16,316	14,562	16,090
Shipments.....	16,433	11,225	17,376	16,390
Corn:				
Receipts.....	20,490	12,460	31,204	14,917
Shipments.....	20,159	8,849	38,213	14,925
Oats:				
Receipts.....	5,974	4,442	5,195	6,861
Shipments.....	8,889	5,808	10,460	8,871

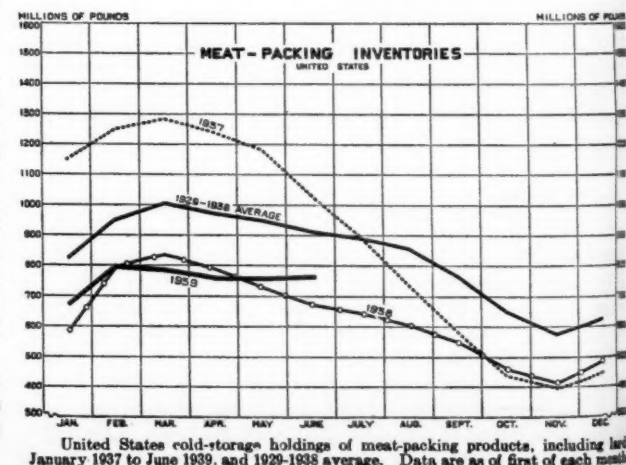
Livestock and Meat Packing—During May there was a sharp rise in receipts of livestock—with the exception of sheep and lambs—at public stock yards in the United States. Federally inspected slaughter similarly showed a sizable increase in all classes of livestock, including lambs. With rising slaughter totals, packing-house commodity production in the United States expanded much more than seasonally in May over April, and exceeded the 1929-38 average by the widest margin in 1939 to date. The tonnage sold not only was the largest for any month since last October, but also almost equaled current production. Prices of most meat products have been soft recently. At the end of May payrolls in the meat-packing industry showed a gain of 3 per cent in number of employees and a fractionally higher rise in hours worked and wage payments. Similarly, there was an increase over the 1938 level of 7 per cent each in hours and wage payments, and one of 6 per cent in employment. Preliminary estimates for the first half of June show production in this industry as slightly lower than in 1938.

MEAT PACKING—UNITED STATES

Per Cent Change in May 1939 from

	April 1939	May 1938	May 1929-38 Avg.
Tonnage produced.....	+17.4	+16.9	+7.2
Tonnage sold.....	+17.1	+10.1	+3.2
Dollar sales.....	+7.6	+2.2	+6.0
Inventories.....	+0.3	+13.3	-16.3

Reflecting in part improved demand in England for United States lard and a tendency for American packers to increase their consignment stocks, shipments of animal products for export expanded in May over April. Prices of United States lard in the United Kingdom remained under Chicago parity, but the discrepancy was less than in previous months; however, British quotations on meats were less favorable. Cuban demand, particularly for lard, improved in May, but Porto Rican and other Latin American trade was not quite up to the April level.



LIVESTOCK SLAUGHTER

(In thousands)

	Cattle	Hogs	Lambs and Sheep	Calves
Yards in Seventh District, May 1939.....	209	578	255	88
Federally Inspected Slaughter, United States:				
May 1939.....	814	3,416	1,392	509
April 1939.....	677	2,931	1,224	457
May 1938.....	772	2,585	1,550	500
May 1929-38 average.....	730	3,291	1,393	482

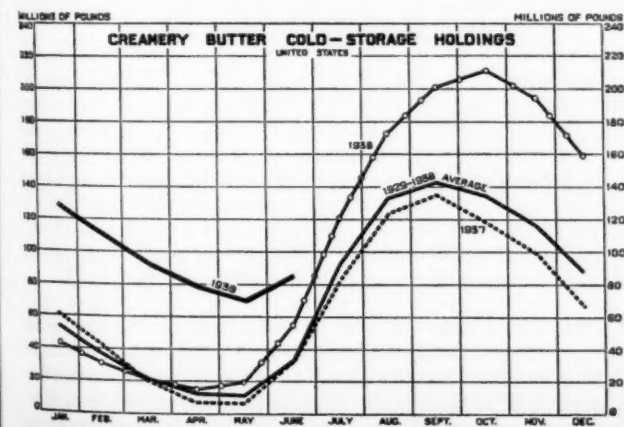
AVERAGE PRICES OF LIVESTOCK

(Per hundred pounds at Chicago)

	Week Ended June 17, 1939	May 1939	Months of April 1939	May 1938
Native Beef Steers (average).....	\$ 9.30	\$ 9.75	\$10.20	\$ 8.75
Fat Cows and Heifers.....	7.80	8.30	8.30	7.40
Calves.....	9.00	9.75	9.25	8.90
Hogs (bulk of sales).....	6.10	6.75	6.95	8.20
Lambs.....	9.75	9.50	10.00	7.85

Dairy Products—Milk production in the past several months has been at record levels for the season in spite of only fair pasturage in some spots. Butterfat prices have been so depressed, however, that creamery butter production has failed to come up to the high 1938 levels, though considerably above average production for this time of year. The May butter make by Seventh district firms advanced 41 per cent over April, but was almost 8 per cent below the May 1938 amount, while production in the United States as a whole recorded a similar seasonal increase in May. Sales of butter by district creameries showed a sharp advance of 36 per cent over April and were 10 per cent heavier than a year ago. As may be noted in the accompanying chart, cold-storage statistics evidence a marked seasonality and have been at relatively onerous levels for some time. Since last summer, however, a large proportion of butter inventories has been held by Government agencies. There have been no open-market purchases of butter by these agencies since early March, and the distribution of butter for relief has averaged about 12 million pounds per month since the first of the year. With reduced prices, exports of butter have been in greater volume than imports for many months, and oleomargarine production has fallen off considerably. In May and June butter prices recovered somewhat from the 5-year lows of April. Heavy fluid milk production has recently contributed to lowered retail milk prices in several mid-Western cities.

Production of American cheese in Wisconsin expanded seasonally during May over April but was 8 per cent lower than last May, while sales of that commodity were 34 per



United States cold-storage holdings of creamery butter, January 1937 to June 1939, and 1929-1937 average. Data are as of first of each month.

cent higher than a year ago but showed little change from a month previous. Inventories of cheese have not been in such heavy amounts as have those of butter, and prices have been relatively firm. The Government has not found it necessary to make large purchases of cheese on the open market during the past year, as was the case in the butter markets, but on June 12 the Federal Surplus Commodities Corporation announced that for a short time it would receive carlot offers on American cheese manufactured before June 1.

Industrial Employment

Employment and payrolls in Seventh district industries decreased 2 and 3 per cent, respectively, from mid-April to the corresponding payroll period in the middle of May. This declining trend can be largely attributed to reduced operations at the latter time within the automobile industry; however, the metals group exclusive of vehicles likewise experienced a somewhat sharper recession than in the preceding month. Employment and payrolls gained slightly over the period in the lumber products group and substantially in the stone-clay-and-glass industries, but these increases were not sufficient to offset greatly other losses within the durable goods industries. Increases outweighed declines in the non-durable goods industries, so that total employment in this group increased one-half per cent and wage payments fractionally more than one per cent over mid-April. Within this classification, textiles contributed the greatest decline and food products the most notable increase. Except for coal mining, in which wage payments were substantially lower on account of the recent strike situation, general improvement was noted among the non-manufacturing industries.

Employment in the combined manufacturing and non-manufacturing industries totaled about 10 per cent higher in mid-May than a year earlier; the corresponding gain for wage payments was 18 per cent. The May level of both employment and payrolls was about 5 per cent lower than the peak of last December.

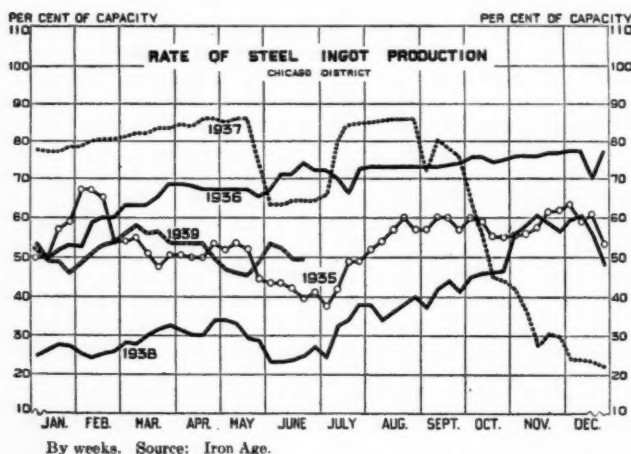
EMPLOYMENT AND EARNINGS—SEVENTH FEDERAL RESERVE DISTRICT

Industrial Group	Week of May 15, 1939			Change from April 15, 1939	
	Reporting Firms No.	Wage Earners No.	Earnings (000 Omitted) \$	Wage Earners %	Earnings %
DURABLE GOODS:					
Metals and Products ¹	1,792	380,638	10,579	-1.7	-1.8
Vehicles.....	384	302,908	9,419	-8.4	-12.0
Stone, Clay, and Glass.....	294	23,143	550	+3.4	+7.1
Wood Products.....	490	42,619	909	+0.0	+1.5
Total.....	2,960	749,308	21,457	-4.3	-6.2
NON-DURABLE GOODS:					
Textiles and Products.....	397	63,720	1,132	-2.0	-6.3
Food and Products.....	1,023	100,174	2,669	+3.5	+6.5
Chemical Products.....	298	35,671	1,103	-0.1	+1.7
Leather Products.....	172	25,836	515	-1.3	-0.6
Rubber Products.....	36	17,381	448	-0.4	+2.5
Paper and Printing.....	751	75,441	2,168	+0.0	-1.0
Total.....	2,677	318,023	8,035	+0.5	+1.2
Total Mfg., 10 Groups.....	5,637	1,067,331	29,492	-2.0	-4.3
Merchandising ²	5,578	137,103	3,035	+0.5	+0.3
Public Utilities.....	1,125	100,480	3,366	+0.8	+2.2
Coal Mining.....	74	13,556	222	+0.0	-16.6
Construction.....	794	10,103	310	+13.7	+20.1
Total Non-Mfg., 4 Groups.....	7,571	261,242	6,933	+1.1	+1.3
Total, 14 Groups.....	13,208	1,328,573	36,425	-2.2	-3.3

¹Other than Vehicles. ²Illinois, Indiana, and Wisconsin.

Manufacturing

Steel and Steel Products—Following the concessions made in prices of sheet and strip steel in May and the settlement of the coal strike, operations of Chicago district steel mills were raised somewhat; and at the end of May, the steel ingot rate of 53½ per cent of capacity was 8 points higher than that obtaining in mid-May when steel operations were at the lowest ebb for the year to date. However, by the second week in June, output had declined to 49½ per cent of capacity, where it remained through the third week of the month. Demand in the middle of June was running somewhat lighter than in May, at which time the widespread concessions on sheets and strip had stimulated considerable buying of these items. Deliveries of such products are expected to maintain production over the next several months. There has been little significant change noted during recent weeks in buying of products other than sheets and strip.



Because of large orders placed with a few companies, incoming tonnages booked by district steel castings foundries recorded a rather sharp increase in the aggregate for May over April. Production and shipments for the month did not reflect to any great extent this sizable increase in new orders. At malleable castings foundries, output was lighter in May for the second successive month, and bookings fell off. In contrast to trends in steel castings data, shipments and production of malleable castings firms exceeded the volume of new business. Statistics for both types of castings continued highly favorable compared with 1938, at which time output was running considerably greater than incoming orders.

STEEL AND MALLEABLE CASTINGS SEVENTH DISTRICT

	May 1939 Per Cent Change from	May 1938
Steel Castings:		
Orders booked (tons).....	+26.9	+330.2
Orders booked (dollars).....	+8.0	+199.2
Shipments (tons).....	+1.3	+79.0
Shipments (dollars).....	+3.4	+61.8
Production (tons).....	+7.1	+101.0
Malleable Castings:		
Orders booked (tons).....	-12.8	+81.2
Orders booked (dollars).....	-11.6	+66.0
Shipments (tons).....	-8.4	+43.6
Shipments (dollars).....	-7.3	+34.3
Production (tons).....	-5.2	+81.0

As in the case of the steel castings business, advance orders placed with a few stove and furnace firms effected a rise of 82 per cent in May over the preceding month in the

aggregate for all reporting companies in the district. An increase of 12 per cent in shipments represented the fourth consecutive month of gain, while the decline of 3 per cent in production was slightly less than indicated for April. New orders and output were well above May 1938 levels. Manufacturers' inventories showed little change from the close of April and were moderately lighter than a year ago.

Automobiles—Strikes at supplying factories and a gradual winding-up of the 1939 model season brought production of automobiles in May to a level moderately lower than in April. Output, however, continued substantially greater than the depressed 1938 level. Following settlement of these strikes and additional shutdowns over the Memorial Day holiday, production rose considerably in the first two full weeks of June, reflecting in part an unexpectedly good demand for cars in May. Field stocks of new cars remain heavier than a year ago, but the favorable May sales for the country reduced them from the close of April. Reported production of new passenger cars in the United States during May totaled 237,870, which represented a 13 per cent decline from the preceding month but an increase of 54 per cent over May 1938. Output of trucks during May numbered 59,638, or 7 per cent less than the April total and 61 per cent above year-ago production.

There was only a slight decline during May in retail sales of new automobiles in the district and a further moderate recession in wholesale distribution. Favorable margins over 1938 sales levels widened appreciably in May to show an 84 per cent gain at wholesale and one of 52 per cent at retail. A 10 per cent rise over April was recorded in used-car sales which were almost one third heavier than in May 1938. New-car stocks were reduced by nearly one fifth over the current period, and the margin of increase over the year-ago level was narrowed somewhat. Salable used-car stocks decreased 4 per cent during the month and totaled about 7 per cent lighter in number than at the end of May last year.

Furniture—After rather unfavorable showings in the preceding two months, the volume of new business booked by Seventh district furniture manufacturers increased 35 per cent in May to a level 29 per cent above a year ago and 12 per cent over the 1929-38 May average. Shipments showed a seasonal recession of close to 10 per cent from April but totaled one fourth higher than the light May 1938 shipments. At the end of May, unfilled orders on hand stood 16 per cent above those of April, but the ratio of unfilled orders to new business declined from 99 to 85 per cent. Reporting furniture manufacturers operated at 64 per cent of capacity in May, one point less than in April.

Furniture marts were held in Chicago during the first two weeks of June, in place of the usual May and July showings. Reports indicate a decline of 15 to 20 per cent in attendance from the July 1938 show, which comparison, however, cannot be called strictly accurate. In general, the volume of new business was somewhat disappointing, as some buyers were not able to attend and others had already placed orders at the factories in May. Price trends on the whole were firm. Promotional lines received greatest attention with better quality furniture being shown in the lower-priced field.

Paper and Pulp—As may be noted in the following table, new orders received at district paper mills continued their decline in May from the March peaks, but at a much smaller rate than in April. Output of both paper and pulp recorded increases over April and continued in excess of year-ago volumes.

PAPER AND PULP INDUSTRY SEVENTH DISTRICT

	May 1939 Per Cent Change from	
	April 1939	May 1938
Paper:		
Orders booked (tons).....	-1.7	+7.3
Orders booked (dollars).....	-1.9	-1.0
Shipments (tons).....	+6.5	+20.5
Shipments (dollars).....	+7.2	+15.4
Production (tons).....	+9.7	+15.3
Stocks at end of month (tons).....	+13.2	+6.2
Pulp:		
Production (tons).....	+5.2	+20.0
Stock at end of month (tons).....	-3.6	-33.5

Petroleum Refining—Petroleum refining operations in the Indiana, Illinois, and Kentucky area have been running well ahead of 1938 levels so far this year, and in May crude runs to stills in the area advanced over April and were about 20 per cent heavier than in May 1938. The district has continued to show more favorable comparisons with 1938 than has the United States as a whole, gasoline production for the first four months of 1939 being 11 per cent heavier in the area than a year ago, as against a gain of only 6 per cent in the United States. Consumer demand for gasoline has been good, and in early June tank-wagon and retail prices were raised about one cent.

Building

Total construction contracts awarded in the Seventh district during the first five months of 1939, including publicly as well as privately-financed projects, exceeded any previous corresponding period since 1930. Privately-financed projects, however, totaled slightly less than in 1937. Residential contracts made up 36 per cent of total awards, indicating a steady rise in relative importance of this type of building since the years 1933-34, when residential construction was only about 10 per cent of the total.

During May district contracts awarded showed a fractional rise in value over April. Expansion in residential and utilities construction was largely offset by declines in publicly-financed non-residential and heavy engineering projects. As compared with year-ago trends, the gain of 4 per cent over last May was the smallest increase shown in the comparison since July 1938. Residential building continued to make an excellent showing over last year, but utilities recorded a substantially smaller gain and public works contracts were almost one half smaller than in May 1938.

BUILDING CONTRACTS AWARDED* SEVENTH FEDERAL RESERVE DISTRICT

Period	Total Contracts	Residential Contracts
May 1939.....	\$51,960,000	\$21,100,000
Change from April 1939.....	+0.2%	+14.2%
Change from May 1938.....	+3.7%	+74.1%
First five months of 1939.....	\$222,131,000	\$79,970,000
Change from same period 1938.....	+42.0%	+96.6%

*Data furnished by F. W. Dodge Corporation.

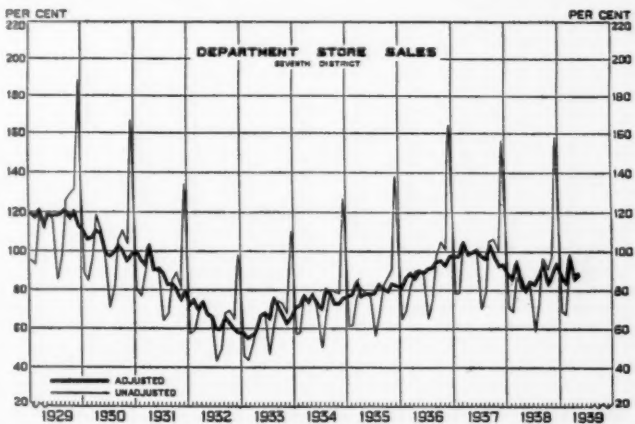
Construction permit data compiled from May reports for 101 cities of the district showed an increase of 30 per cent in number and 10 per cent in valuation over a month previous.

Demand for building materials was in better volume during May than in April, greater than seasonal increases being recorded in sales of lumber at wholesale and retail, as well

as in total sales of retail lumber yards. Brick and cement shipments showed similar trends. Dealer stocks of lumber remained at about the same level as at the end of April. There was little change noted in price trends over the month, and the May index of wholesale building materials prices was only one per cent lower than in 1938.

Merchandising

Department Stores—An increase of 3 per cent in May over April brought Seventh district department store sales to a level 15 per cent above the May 1938 volume. On a daily average basis this favorable margin was narrowed to 10 per cent, since there was one less trading day in May last year. With employment in the automobile and allied industries of the Detroit area continuing much better than a year ago at the time, that city continued to make the best showing in comparison with the 1938 level. Returns from weekly sales reports indicate for the district a gain of



Indexes of department store sales in the Seventh district, with and without adjustment for seasonal variation, 1923-1925 average = 100. By months, January 1929 through May 1939.

11 per cent in the three weeks ended June 17 over the corresponding year-ago period. Even though inventories of department stores were being steadily reduced in the spring of 1938, at the end of May this year stocks totaled 6 per cent lighter than on May 31 last year, having diminished 3 per cent from a month previous. Over the first five months of 1939, stock turnover averaged about 10 per cent better than in the same 1938 period; here again Detroit has been making the best record of improvement among the larger cities of the district.

DEPARTMENT STORE TRADE IN MAY 1939

Locality	Per Cent Change May 1939 from May 1938		Per Cent Change First Five Months 1939 from Same Period 1938	Ratio of May Collections to Accounts Outstanding End of April	
	Net Sales	Stocks End of Month		1939	1938
Chicago.....	+7.7	-7.9	+0.4	46.1	44.4
Detroit.....	+28.5	-3.8	+13.5	46.3	39.5
Fort Wayne.....	+16.2	...	+2.0
Indianapolis.....	+16.3	-6.6	+7.5	37.1	37.0
Milwaukee.....	+10.9	-0.7	+2.8	37.2	37.6
Other Cities*.....	+22.2	-4.8	+10.1	36.1	32.8
7th District.....	+14.6	-5.7	+4.9	42.2	39.4

*Include Fort Wayne.

Retail Shoes—Although sales of shoes at retail in May no more than equaled the April volume—with dealer sales showing some increase and department store trade in shoes a slight decline—sales for the month exceeded the May 1938 level by 15 per cent. In the month last year, however, sales were particularly light. For the year to date, the district retail shoe trade has been about 4 per cent larger than a year ago. Retail inventories on May 31 were slightly under those of a month and year earlier.

Retail Furniture—A more than seasonal expansion in May was indicated by reports on sales of furniture and housefurnishings by dealers and department stores. The gain over April amounted to 17 per cent and the margin of increase over 1938 sales widened to 19 per cent from 7 per cent in the preceding month. Dealer sales showed more favorable trends than did those of department stores, being 24 per cent heavier than in April and 28 per cent over a year ago, as against gains of only 15 and 16 per cent in the respective comparisons for department stores. Combined inventories as of the end of the month were 4 per cent lighter than either a month or year previous.

* * *

SALES OF INDEPENDENT RETAIL STORES (As reported by the Department of Commerce)

	Per Cent Change May 1939 from May 1938			
	Illinois	Indiana	Iowa	Wisconsin
Apparel Group.....	+22.2	+20.6	+20.0	+16.2
Drug Stores.....	+6.3	+7.1	+11.7	+6.4
Food Group.....	+1.1	+3.3	+2.3	+0.4
Furniture and Appliances.....	+19.1	+40.5	+22.0	+4.5
Hardware Stores.....	+16.5	+14.6	+26.1	+12.7
Lumber and Building Materials.....	+17.8	+16.7	+27.5	+2.3
Motor Vehicle Dealers.....	+40.9	+66.9	+20.7	+31.9
Total All Groups.....	+15.9	+19.9	+13.9	+8.3

Wholesale Trade—May trends in wholesale trade of the Seventh district, as indicated by reports to the Department of Commerce by leading firms, were generally favorable. As shown in the following table, comparisons with year-ago trade ranged from good to excellent, and most lines reported substantial increases over April. Total May sales of all groups exceeded those of the preceding month by 12 per cent and were 11 per cent better than in May 1938. Wholesale distribution of paper and paper products showed a fractional decline from a month previous, but those of drugs and drug sundries rose 5 per cent, the grocery trade 10 per cent, tobacco 11 per cent, electrical goods 15 per cent, and hardware 16 per cent. Wholesale inventories on May 31 declined about one per cent from the end of April and the date last year.

WHOLESALE TRADE IN MAY 1939*

Commodity	Per Cent Change from Same Month Last Year			
	Net Sales	Stocks	Accounts Outstanding	Collections
Groceries and Foods....	+5.5	+0.8	-0.5	+6.5
Hardware.....	+13.6	-2.2	+4.4	+8.2
Drugs & Drug Sundries.....	+11.2	-1.3	+1.0	+12.8
Electrical Goods.....	+18.1	-1.9	-7.1	-2.4
Meats & Meat Products.....	+9.2	+19.9	-5.3	+28.3
Paper & Its Products.....	+12.3	+3.4	-0.6	+8.5
Tobacco & Its Products.....	+8.8	+6.6	+3.2	+13.1
Miscellaneous.....	+19.4	-5.2	+4.5	+10.8

*Data furnished by Bureau of the Census, United States Department of Commerce.

MONTHLY BUSINESS INDEXES

Data refer to Seventh district and are not adjusted for seasonal variation unless otherwise indicated.
1923-25 average = 100

	May 1939	Apr. 1939	Mar. 1939	May 1938	Apr. 1938	Mar. 1938
Manufacturing Industries:						
Employment.....	80	83	83	72	74	77
Payrolls.....	77	81	81	63	66	68
Pig Iron Production:						
Illinois and Indiana.....	61	79	85	48	52	51
Automobile Production—(U.S.):						
Passenger Cars.....	81	93	102	53	60	59
Trucks.....	158	170	192	99	115	127
Casting Foundries Shipments:						
Steel—In Dollars.....	41	40	41	27	27	42
In Tons.....	32	31	32	19	18	34
Malleable—In Dollars.....	46	49	61	34	34	37
In Tons.....	57	62	79	40	41	45
Stoves and Furnaces:						
Shipments.....	150	134	130	123	119	120
Furniture Manufacturing:						
Orders in Dollars.....	66	49	64	51	47	56
Shipments in Dollars.....	59	65	76	46	54	66
Building Contracts Awarded:						
Residential.....	72	63	62	41	36	34
Total.....	76	76	64	73	53	49
Meat Packing—(U.S.):						
Production.....	95	81	90	51	77	81
Sales Tonnage.....	94	80	92	55	81	86
Sales in Dollars.....	59	82	85	87	82	83
Department Store Net Sales:						
Chicago.....	84	82	89	79	82	88
Detroit.....	98	101	102	80	94	97
Indianapolis.....	107	107	105	95	100	97
Milwaukee.....	88	98	97	82	98	96
Other Cities.....	88	84	83	77	82	79
Seventh District—Unadjusted.....	89	88	92	80	87	88
Adjusted.....	88	86	98	79	82	86

Credit and Finance

Member Bank Reserves—Since the major factors effecting changes in member bank reserves practically counteracted each other, there was no significant change in the volume of these reserve balances during the four weeks ended June 14. The usual net inflow of commercial and financial funds from other districts continued, amounting to 102 million dollars over the period, but these additions to reserves were offset by an excess of Treasury receipts over disbursements to the extent of 101 millions. Treasury receipts comprised chiefly funds from the sale of Treasury bills, income tax collections not having yet reached any great volume by June 14. A decline in currency circulation and an increase in "float" were partly offset by other minor factors. The net result was that member bank reserve balances increased only 4 million dollars over the four weeks.

Reporting Member Banks—Principally because of enlarged holdings of short-term Treasury securities, investment portfolios of Seventh district weekly reporting member banks increased 64 million dollars during the four weeks ended June 14. A rise in holdings of bills and notes was partially counteracted by net sales of bonds. Demand deposits continued their expansion, the rise amounting to almost 100 millions, while the loan volume showed little change over the period in question.

Securities Markets—Corporate bond prices continued consistently strong in May and early June, having on the whole recovered from declines suffered prior to April. Some reaction appeared in June, influenced by a slight softening in the high prices of Government issues. With investors apparently turning in increasing number to medium-grade bonds in their search for higher yields, the spread between higher- and lower-grade securities was narrowed. Chicago bond dealers have noticed this lessening of the distinction between the two grades of bonds, particularly in the case

of the country banks. Larger city banks, however, continued insistent upon high-grade short-term securities, even more so than has been the case in the East. Longer-term municipal bonds found a readier market in the East than in the Middle West. New municipal issues have recently been larger than early in the year, and new long-term corporate financing in May was in sizable volume, about 90 per cent of it originating in the Seventh district.

Rates on the weekly issues of Treasury bills continued nominal. Average prices of long-term Treasury securities established new highs early in June, particularly after the announcement on June 1 that no new cash would be sought

in the June Treasury financing. Following this rise there was a minor reaction. Treasury operations between May 15 and June 15 included a large refunding of H.O.L.C. bonds, of which 76 per cent were exchanged, and a refunding of Treasury notes maturing September 15. Nearly one quarter of the Treasury note exchanges took place in this district.

Interest Rates—The average rate earned by the large Chicago and Detroit banks on total loans and discounts during the month of May was sharply higher than for the preceding month. As has been the case since last fall, the figure continued above the comparable year-ago average.

Selected Seventh District Banking Data

FEDERAL RESERVE BANK OF CHICAGO, SELECTED ITEMS OF CONDITION

(Amounts in thousands)

	June 14, 1939	Change from May 17, 1939	June 15, 1938
Total bills and securities.....	\$ 287,743	\$-35	\$+9,595
Bills discounted.....	90	-33	-145
Bills bought.....	71	0	+5
U. S. Treasury bills.....	53,395	0	-20,981
U. S. Treasury notes.....	131,705	0	+9,300
U. S. Treasury bonds.....	102,027	0	+21,569
Total Government securities.....	287,127	0	+9,888
Total reserves.....	2,307,751	+18,403	+109,714
Member bank reserve deposits.....	1,333,091	+4,378	-10,219
All other deposits.....	247,140	+26,438	+104,790
Federal Reserve notes in circulation.....	983,254	-8,032	+25,779
Ratio of total reserves to deposit and Federal Reserve note liability combined.....	90.0%	0.0*	+0.1*

*Number of Points.

CONDITION OF REPORTING MEMBER BANKS SEVENTH DISTRICT

(Amounts in millions)

	June 14, 1939	Change from May 17, 1939	June 15, 1938
ASSETS			
Loans and investments—total.....	\$3,141	\$+65	\$+309
Loans—total.....	884	+1	+16
Commercial, industrial, and agricultural loans.....	498	-3	+14
Open-market paper.....	31	+1	-3
Loans to brokers and dealers in securities.....	38	-1	+2
Other loans for purchasing or carrying securities.....	80	+1	+2
Real estate loans.....	102	+1	+12
Loans to banks.....	1	-2	-4
Other loans.....	114	+4	-7
U. S. Treasury bills.....	191	+47	
U. S. Treasury notes.....	412	+20	+166
U. S. Treasury bonds.....	913	-10	
Obligations fully guaranteed by U. S. Government Other securities.....	269	+6	+65
	492	+1	+53
LIABILITIES			
Demand deposits—adjusted*.....	2,435	+98	+210
Time deposits.....	917	+4	+40
Borrowings.....	0	0	0

*The annual velocity of demand deposits (unadjusted) in the four weeks ended June 14 was 19.69 times, as compared with 20.14 times in the preceding four weeks and with 20.40 times in the corresponding period of 1938.

BANK DEBITS, SEVENTH DISTRICT

(Amounts in millions)

	May 1939	Per Cent of Increase or Decrease from April 1939	May 1938
Chicago.....	\$2,784	+1.9	+15.9
Des Moines.....	98	+6.5	+10.3
Detroit.....	882	+7.4	+26.2
Fort Wayne.....	33	+8.5	+15.8
Grand Rapids.....	51	+4.8	+18.4
Indianapolis.....	193	+3.9	+15.6
Milwaukee.....	241	+3.4	+8.2
Pooria.....	58	+6.5	+10.1
South Bend.....	35	-9.0	+10.6
22 smaller cities.....	474	+3.9	+12.2
Total 41 cities.....	4,849	+3.3	+10.6

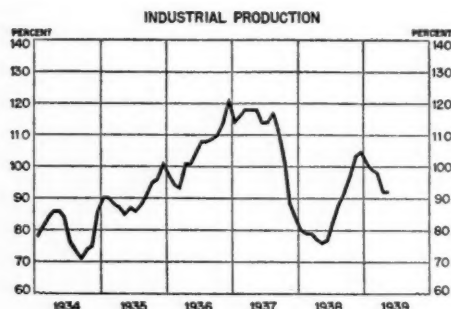
TRANSIT OPERATIONS OF THE FEDERAL RESERVE BANK OF CHICAGO AND DETROIT BRANCH

(Exclusive of Treasury checks and of non-transit items drawn on own bank)

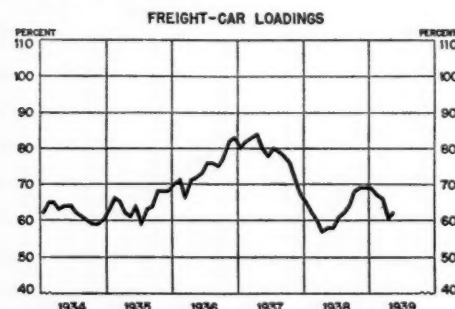
	May 1939	May 1938
Total country and city check clearings:		
Pieces.....	13,015,556	10,700,728
Amount.....	\$2,236,962,234	\$1,780,153,243
Daily average clearings:		
Total items cleared—		
Pieces.....	500,598	428,029
Amount.....	\$86,037,009	\$71,206,130
Items drawn on Chicago—		
Pieces.....	76,026	71,996
Amount.....	\$42,989,000	\$38,533,000
Items drawn on Detroit—		
Pieces.....	18,823	16,159
Amount.....	\$8,597,375	\$6,582,465

National Summary of Business Conditions

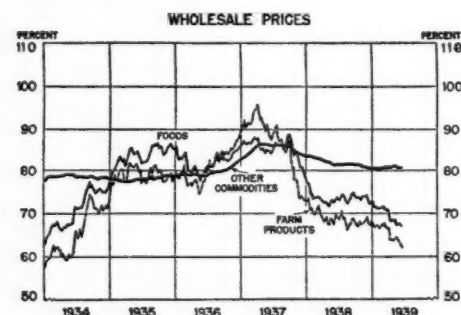
(By the Board of Governors of the Federal Reserve System)



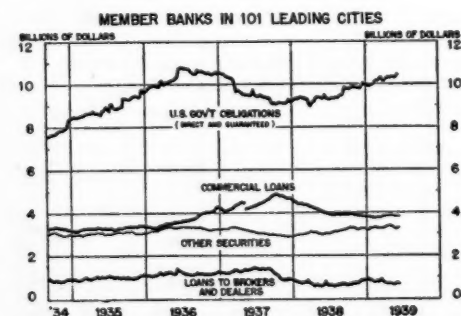
Index of physical volume of production adjusted for seasonal variation, 1923-1925 average = 100. By month, January 1934 to May 1939.



Index of total loadings of revenue freight, adjusted for seasonal variation, 1923-1925 average = 100. By month, January 1934 to May 1939.



Indexes compiled by the United States Bureau of Labor Statistics, 1926 = 100. By weeks, 1934 to week ending June 17, 1939.



Wednesday figures for reporting member banks in 101 leading cities, September 5, 1934, to June 14, 1939. Commercial loans, which include industrial and agricultural loans, represent prior to May 19, 1937, so-called "Other loans" as then reported.

INDUSTRIAL production, which had been receding on a seasonally adjusted basis during the first four months of this year, showed little change in May and increased considerably in the first three weeks of June. The advance reflected principally larger output of steel and coal, which had previously shown considerable declines.

Production—In May the Board's seasonally adjusted index of industrial production was at 92 per cent of the 1923-1925 average, the same as in April. Volume of manufacturing production declined somewhat further, owing chiefly to reductions in output of steel and automobiles, but mineral production increased as most bituminous coal mines were reopened after the middle of the month.

Steel ingot production, which had been at an average rate of 52 per cent of capacity in April, declined to 45 per cent in the third week of May. About this time prices of some types of steel were reduced considerably and orders were placed in substantial volume. Subsequently steel output increased and the current rate is about 55 per cent of capacity, approximately the level maintained during the first quarter of this year.

In the automobile industry output was reduced by about one fifth at the beginning of May, and in the latter part of the month there was further curtailment partly as a result of a strike at a body plant which led to the closing of most assembly lines of one major producer. In the early part of June the strike was settled and by the middle of the month output had risen to a level higher than that prevailing during most of May. Lumber production increased further in May following less than the usual seasonal rise during the first quarter of this year.

Output of nondurable manufactures in the aggregate was at about the same rate in May as in April. At woolen mills activity increased sharply, following a decline in April, and at cotton and rayon mills output was maintained. Mill consumption of raw silk showed a further sharp decline. At meat-packing establishments output increased more than seasonally, and as in March and April was considerably larger than a year ago, reflecting a sharp increase in the number of hogs slaughtered. Flour production continued in larger volume than is usual at this season, while at sugar refineries there was a decrease in output.

Mineral production increased in May owing chiefly to the reopening of most bituminous coal mines. Anthracite production, which had been in large volume in April, declined in May, while output of crude petroleum increased somewhat further.

Value of residential building contracts, which had shown a considerable decline in April, increased in May, according to figures of the F. W. Dodge Corporation. Public residential awards were higher owing to a greater volume of United States Housing Authority projects; private awards also increased but on a seasonally adjusted basis were below the high level reached in February and March. Contracts for both public and private non-residential construction declined in May, following increases in the preceding two months.

Employment—Factory employment and payrolls showed little change from the middle of April to the middle of May, according to reports for a number of States.

Distribution—Department store sales declined from April to May, while sales at variety stores and by mail order houses showed little change. In the first two weeks of June department store sales increased.

Freight-car loadings increased in the latter half of May, reflecting chiefly expansion in coal shipments. In the first half of June loadings of coal increased further and shipments of other classes of freight also were in larger volume.

Commodity Prices—Prices of industrial materials, such as steel scrap, hides, wool, and print cloths, advanced somewhat from the middle of May to the third week of June. Wheat, silk, and coal prices declined early in June, following increases in May, and there were further declines in prices of livestock and meats.

Bank Credit—During the four weeks ending June 14 total loans and investments at member banks in 101 leading cities increased by \$270,000,000, following a decline of \$200,000,000 in the preceding four weeks. The major increase was in holdings of Treasury notes and bonds at New York City banks. Demand deposits increased sharply to new high levels both in New York and in the leading cities outside New York.

During the first three weeks of June excess reserves of member banks showed little change from the new high level of \$4,300,000,000 reached on May 24. Continued gold imports largely went into earmarked gold and into balances held for foreign account at the Federal Reserve banks.

Money Rates—Prices of United States Government securities, which had advanced sharply from April 11 to June 5, reaching a new high level, eased slightly during the next two weeks. The yield on the longest-term Treasury bonds outstanding declined from 2.49 per cent on April 11 to 2.26 per cent on June 5 and increased to 2.32 per cent on June 19. Other money rates showed little change.

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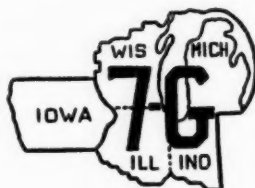
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SEVENTH FEDERAL



RESERVE DISTRICT

